

Bank of Uganda



Monetary Policy Report

August 2022

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ACRONYMS AND ABBREVIATIONS

AEs	Advanced Economies
BoP	Balance of Payments
BOU	Bank of Uganda
CAD	Current Account deficit
CBR	Central Bank Rate
CRM	Credit Relief Measure
CIEA	Composite Index of Economic Activity
COVID-19	Corona Virus Disease 2019
CPI	Consumer Price Index
EAC	East African Community
ECB	European Central Bank
ECF	Extended Credit Facility
EIU	Economic Intelligence Unit
EU	European Union
EFU	Energy, Fuel and Utilities
EMs	Emerging Market Economies
EMDEs	Emerging Market and Developing Economies
FID	Final Investment Decision
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IMF	International Monetary Fund
LICs	Low Income Countries
NEER	Nominal Effective Exchange Rate
NPLs	Non- Performing Loans
OPEC	Organization of Petroleum Exporting Countries
OPEC+	OPEC and partners
PSC	Private Sector Credit
SDR	Special Drawing Rights
SOPs	Standard Operating Procedures
SSA	Sub-Saharan Africa
REER	Real Effective Exchange Rate
UK	United Kingdom
US	United States
US	United States of America
US\$	United States Dollar
URA	Uganda Revenue Authority
WTI	West Texas Intermediate
WEO	World Economic Outlook

EXECUTIVE SUMMARY

1. The Monetary Policy Committee (MPC) assessed that the risks to inflation were significantly tilted to the upside around the baseline forecast of 7.0 to 7.4 percent for 2022. The inflation outlook is driven by the lagged impact of higher exchange rate depreciation, dry weather that has resulted in the sharp rise of food crop prices and a pass-through from global inflationary pressures. In addition, the committee noted the recent support from the fiscal policy tightness to address the current inflationary pressures. The committee therefore decided to raise the CBR by 50 basis points to 9.0 percent. The band on the CBR remains at +/- 2 percentage points and the margins on the CBR for the rediscount and bank rates will remain at 3 and 4 percentage points, respectively.
2. The economy continues to face strong cost-push inflation pressures from the external environment, dry weather conditions, and exchange rate depreciation amidst weak domestic demand. The annual headline and core inflation rose to 7.9 percent and 6.3 percent in July 2022 from 6.8 percent and 5.5 percent in June 2022, respectively. Annual food crop inflation continued to rise from 14.5 percent in June 2022 to 16.4 percent in July 2022 and annual Electricity, Fuel and Utilities (EFU) inflation also rose from 14.2 percent to 17.2 percent in the respective months. The inflation outlook is significantly uncertain. However, the BoU assesses that the balance of risks to the inflation outlook is tilted to the upside. The upside risks include a further intensification of geopolitical tensions which could ignite a renewed surge in oil prices, impact on global trade and further negative spill-overs from the Russia-Ukraine conflict. Faster policy rate tightening by advanced economies could intensify capital outflows from Uganda leading to a more depreciated exchange rate. Higher global inflation due to food and energy prices, tighter labour markets in some advanced economies or de-anchoring of inflation expectations and poor weather conditions are likely to put pressure on the domestic inflation.
3. Domestic economic growth prospects have been dimmed further with increasing risks of a global recession, weaker consumer and business sentiments as high inflation and commodity prices, continue to erode households and business incomes and financial conditions tighten. The first quarter of 2022 GDP data was disappointing as the economy contracted by 1.6 percent with all sectors of the economy contracting although the services sector stocked the biggest hit. In addition, the growth of the CIEA slowed down from a quarter-on-quarter growth of 2.1 percent in the quarter to December 2021 to 1.4 percent in both the quarters to March and June 2022. The year-on-year growth of the index also slowed down to 3.9 percent from 4.6 percent in the respective quarters.
4. Economic growth is now projected in the range of 2.5-3.0 percent in 2022, reflecting the effects of higher costs of production arising from fuel and transportation on activity, negative impulse from

the fiscal and tighter financial conditions, and weaker domestic and external demand but will rise to 5.0-6.0 percent in 2023, in part supported by public investments and recovery in demand as inflationary pressures begin to wane. The risks to the growth outlook are tilted to the downside, including the emergence of global recession, escalation of geopolitical conflicts, heightened global economic uncertainty and higher inflation. Other downside risks are a further decline in consumer confidence, heightened exchange rate volatility and extended weakening of investor optimism. In the medium term, the economy is projected to grow in the range of 6.5 – 7.0 percent, supported by public and private investments in the oil sector.

5. Interbank money market rates remained anchored around the Central Bank Rate (CBR). In the quarter to July 2022, the 7-day and overnight rate interbank rates rose and stayed above the CBR most of the time owing to the tight liquidity conditions resulting from the 2 percentage points increase of the cash reserve requirement ratio to 10 percent, and the recent CBR hikes.
6. Private Sector Credit (PSC) growth remains weak and have stayed below 10 percent on year-on-year basis for a protracted period. Credit growth to the private sector is constrained by weak economic activity and increased risk aversion of the lenders. Credit growth is slowing down in some of the major sectors including the Personal and Households loans and Agriculture sectors and remain very weak in others. Credit to private sector will most probably remain weak due to weak economic activity and the tightening financial conditions as several banks have embarked on the upward adjustments of their prime lending rates.
7. Fiscal policy was contractionary during FY2021/22, as fiscal deficit including grants contracted to 7.3 as a percent of GDP from 9 percent in the previous year as revenues and grants did not perform to expectations. Fiscal revenues including grants amounted to 14.2 percent of GDP, 0.5 percent of GDP lower than the approved budget. At 21.4 percent of GDP, total expenditure and net lending was lower by 2.3 percentage points, largely due to a marked 2.3 percent of GDP contraction in development spending which more than offset the increase in current spending. The contraction of development spending is due to slow execution of some government development projects and delayed disbursement of some of the project grants and loans. On the other hand, current expenditure at 13 percent of GDP, overshoot the approved budget largely reflecting the increased interest payments on domestic public debt. More than half of the deficit financing came from domestic borrowing at 3.4 percent of GDP and it was almost double the amount included in the initial approved budget to cover the shortfall on the projected external financing. As a result, total public

debt stock increased by 12.3 percent to Shs. 78,879.8 billion or 48.7 percent of GDP, as at end June 2022.

8. Uganda's current account deficit narrowed during FY2021/22, improving by 1.5 percentage points of GDP to 8 percent owing to the narrowing of the deficit on the services account that was supported by the rebound of the tourism activity following the easing of the pandemic-related travel restrictions globally. In contrast, all the other sub-accounts registered deterioration. The merchandise trade deficit widened on account of deteriorating terms of trade, the primary income deficits widened owing to rising interest payments on public debt while the secondary income surplus contracted somewhat during the reporting year relative to FY2020/21. The financial account surplus sharply contracted, narrowing by over 50 percent to US\$431.6 million in the quarter to June 2022, reflecting increasing portfolio capital outflows and outflow of other investments amidst unchanged FDI inflows. Reflecting the interest rate hikes in advanced economies, net exit from the domestic debt market amounted to US\$110.4 million in the quarter to June 2022 and this was the main driving force to the depreciation of the shilling in addition to increased demand from corporates as worse terms of trade meant more demand for dollars for the volume of goods imported.
9. The shilling lost 4.9 percent of its value to the US Dollar quarter on quarter and year-on-year, during the Quarter to July 2022 driven by tightener global financial conditions, deteriorating term of trade and bearish sentiments. In July 2022, the pace of depreciation was significantly checked by the tight liquidity conditions in the money markets. Reflecting the nominal depreciation, the shilling depreciated by 1.9% year-on-year in real effective terms.
10. In the near term, the external sector outlook is subject to various downside risks, including intensifying geopolitical tensions, continued elevation of commodity prices and intensification of global financial markets volatility and tightness. The challenging global environment may continue to increase investor risk averseness for domestic financial assets and induce flight to safety, heightening exchange rate depreciation pressure.

1. GLOBAL DEVELOPMENT AND OUTLOOK

1.1 Global economic activity

The global economy is marred with increasing gloom, uncertainty, and high odds of a global recession. The recovery from the pandemic is thus highly to be short-lived. Three major shocks have contributed to the contraction in global output during the second quarter of 2022 and worsened the outlook for growth in the near- and medium term. The shocks are higher-than expected inflation worldwide, particularly the United States and many European countries that has triggered tighter global financial conditions; worse-than anticipated slowdown in china due to Covid-19 outbreaks and associated lockdowns; and adverse spill-over effects of the Russia-Ukraine conflict on commodity prices and sentiments. The second quarter contraction in the global output reflects sharper downturns in China due to Covid-19 outbreak and associated restrictive measures, Russia as well as in the United States owing to weakening consumer purchasing power. The July 2022 update by the IMF, downgraded the global growth forecast from the 6.1 percent outturn in 2021 to 3.2 percent in 2022 and 2.9 percent in 2023 (**Table 1**), largely reflecting growth outlook downgrade for the United States and China.

The US growth forecast is revised lower by 1.4 percentage points due to reductions in household purchasing power, tighter monetary policy stance from the Fed as well as low growth at the start of the year, while China's growth is revised downwards by 1.1 percentage points due to further lockdowns, and the worsening real estate crisis. In addition, India's economic growth is revised downwards by 0.8 percentage points due to rapid monetary policy tightening and unfavourable external conditions. More so, there were significant downgrades for European economies reflect the tightening of monetary policies, negative spill-overs from the Russian-Ukraine conflict, and the humanitarian costs as displaced Ukrainians seek refuge in neighbouring countries. Sub-Saharan Africa's growth outlook remains unchanged for most countries with growth expected for countries that export fossil fuels and metals due to the high commodity prices.

The risks to the global growth outlook have increased and overwhelmingly tilted to the downside. The Russia-Ukraine conflict continues to loom large and threaten a sudden stop of the European gas supply, inflation could remain persistently higher if inflation expectations de-anchor or labour market remains tighter, escalating the tightening of global financial conditions and induce debt distress in emerging market economies. In addition, further escalation of the property sector crisis and new Covid-19 outbreak and associated lockdowns in China could hamper the country's growth, while intensification of geopolitical fragmentation could hamper trade and cooperation.

The slowdown in global growth could lead to contraction in external demand for Uganda’s exports. The slowdown in China’s growth and tightening global financial condition could result in reduced financial support, debt distress, and depreciation pressures of currencies for to EMDEs and Uganda, which would complicate both fiscal and monetary policies.

Table 1: Global economic growth projections

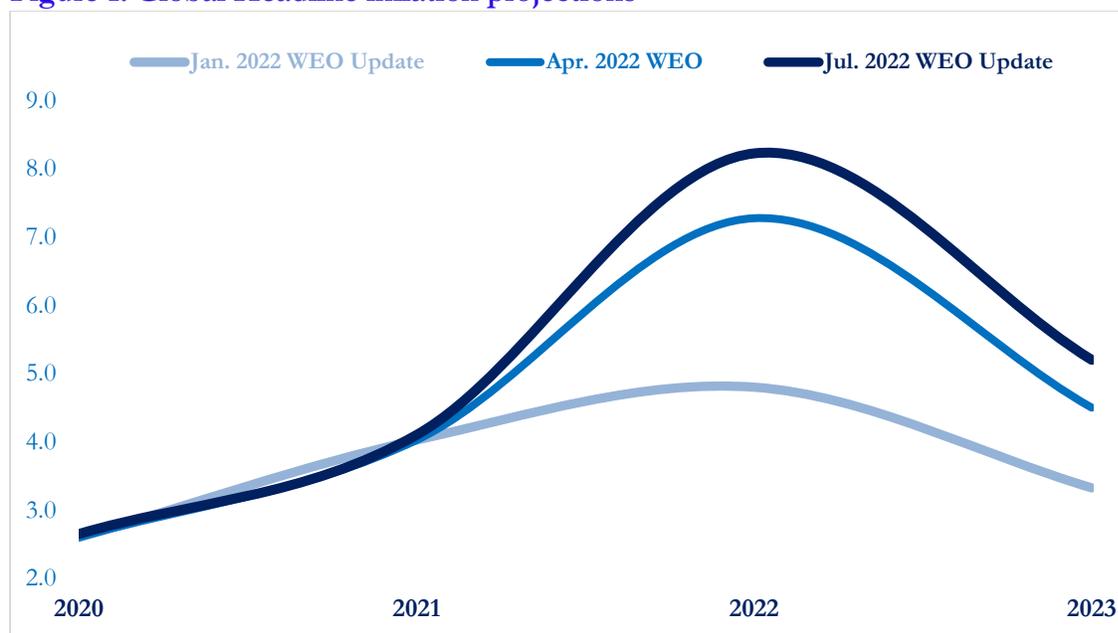
	Actual		Projection		Deviation from April 2022 projection	
	2020	2021	2022	2023	2022	2023
World Output	-3.1	6.1	3.2	2.9	-0.4	-0.7
Advanced Economies	-4.5	5.2	2.5	1.4	-0.8	-1.0
United States	-3.4	5.7	2.3	1.0	-1.4	-1.3
Euro Area	-6.3	5.4	2.6	1.2	-0.2	-1.1
United Kingdom	-9.3	7.4	3.2	0.5	-0.5	-0.7
EMDEs	-2.0	6.8	3.6	3.9	-0.2	-0.5
China	2.2	8.1	3.3	4.6	-1.1	-0.5
India	-6.6	8.7	7.4	6.1	-0.8	-0.8
Russia	-2.7	4.7	-6.0	-3.5	2.5	-1.2
Sub-Saharan Africa	-1.6	4.6	3.8	4.0	0.0	0.0
South Africa	-6.3	4.9	2.3	1.4	0.4	0.0

Source: IMF, July 2022 WEO

1.2 Global inflation

Globally, inflationary pressures remain persistently high and widely spread, prompting monetary policy tightening from several central banks. In July 2022, the US inflation remains elevated, although surprised on the downside after slowing to 8.5 percent from an over 40-year high of 9.1 percent in June 2022 as energy costs slowed by more than expected. In the Euro Area and the UK, inflation accelerated to 8.9 percent and 10.1 percent, respectively in July 2022. Reflecting upward drifts in long-term inflation expectations, higher food and energy prices, lingering supply-demand mismatches as well as tighter labour markets, inflation forecasts have been revised upwards (Figure 1). The July 2022 WEO update revised the global headline inflation projection by 1 percentage point and 0.7 percentage point to 8.2 percent and 5.2 percent for 2022 and 2023, respectively (Figure 1). The wide revisions in the forecasts reflect greater uncertainty around the future trajectory of global inflation.

Figure 1: Global Headline inflation projections



Source: IMF

The risks to the inflation outlook arise from; the possibility of tighter labour markets causing workers to increasingly demand compensation for past increases in the cost of living, which could lead to wage-inflation spiral, further shocks to food and energy prices and pass-through to core prices resulting from escalation of Russia-Ukraine conflict, and failure to anchor inflation expectations. If upside risks materialized, more central banks could opt to rapid tightening of monetary policies to curb the inflationary pressures which will trigger a global stagflation. The high inflation global inflation will mean high imported inflation as well as higher costs of production to many economies including Uganda further complicating the monetary and fiscal policies.

1.3 International commodity prices

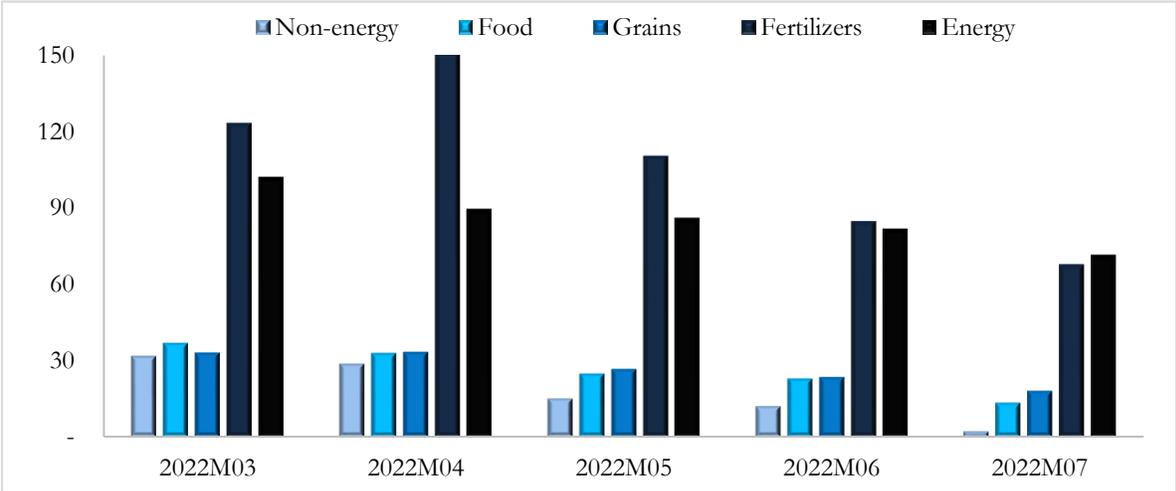
Commodity prices remain elevated with energy prices, non-energy prices, and food prices at 71.5 percent, 2.2 percent, and 13.4 percent higher, respectively compared to the levels of the same period in 2021 (**Figure 2**). However, commodity price pressures seem to be gradually easing for several commodities as fears of a global demand contraction exert downward pressure. For instance, in July 2022, crude oil prices fell by 10 percent month-on-month, while prices of food, fertilizers, arabica coffee, palm oil, sun flour oil and metals declined by 8.5, 3.7, 6.5, 29.6, 17.4 and 13.4 percent, respectively. Decline in food prices

reflects largely the wheat export deal agreed by Russia and Ukraine and easing of oil export restrictions in Indonesia.

The risks to the global commodities prices are tilted to the upside, including worsening imbalances between global demand and supply as Europe prepares to put further sanctions on Russia with a possibility of a complete cessation of Russia gas exports to European economies; limited substitutability of commodities; and rising inflation which is adding to increased costs of production.

For Uganda, rising commodity prices is expected to lead to higher input costs, which may worsen the already increasing marginal costs of production facing Ugandan importers and producers, which in turn may induce a contraction in output in the affected sectors.

Figure 2: Growth of selected international commodity prices (y/y, percent)



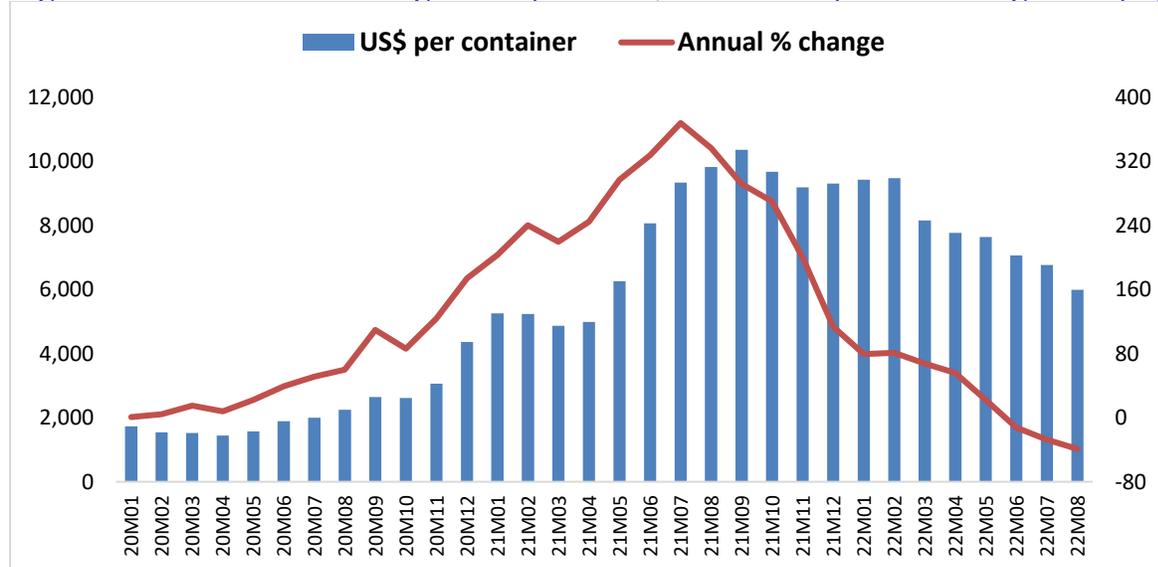
Source: World Bank

1.4 Global transport and logistics

The sharp increase in freight charges that began in 2020 has begun to unwind amidst waning consumer demand with congestions at key ports declining. In addition, continued lockdowns in China, which are aimed at stemming the spread of Covid-19 variants, are contributing to the declines in freight charges. The Freightos Baltic Index (FBX), which had peaked at US\$10,361 in September 2021 has since declined to US\$5,986 in August 2022 (**Figure 3**). The slowdown in freight charges points to a possible reduction in global inflation. However, reports of worker strikes have ensured that freight rates are still higher than pre-Covid levels. In the near- to medium term, freight charges are expected to decline further as worker

strikes are resolved and new orders reduces further at the backdrop of a slowdown global economic activity.

Figure 3: Global container freight rate (left scale, U.S. dollars) and annual growth (Right)



Source: Statista

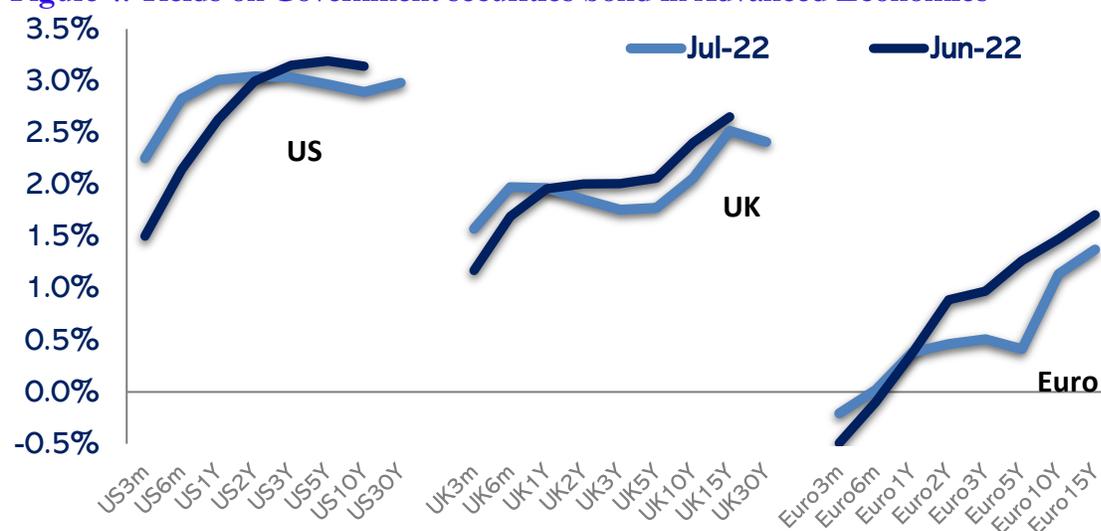
1.5 Global financial markets

Global financial market conditions are tight as advanced economies central banks raise interest rates to curtail rising inflation pressures. In addition, the dim economic outlook has caused high market volatility, tightening liquidity in both fixed-income and equity markets. Due to the tightened financial conditions, most EMDEs are having to struggle with weaker currencies and wider dollar funding spreads which has increased the cost of external borrowing.

Bond yields in advanced economies that had sharply risen on account of the tighter central bank monetary policy stances declined in July 2022, reflecting intensifying risks of a global recession (**Figure 4**). Inversion of the yield curve is already visible for the United States and the UK and this is a strong predictor of a recession.

The risks arising from the current global financial conditions include rising credit default swaps, portfolio outflows from EMDEs contributing to exchange rate depreciation pressures.

Figure 4: Yields on Government securities bond in Advanced Economies



Source: Thomson Refinitiv

2. DOMESTIC DEVELOPMENT AND OUTLOOK

2.1 Domestic financial markets

A developed financial market efficiently channels liquidity from institutions with surplus funds to those in deficits, provides effective price-discovery mechanism and helps transmit monetary policy shocks to the real economy. A comprehensive assessment of the financial markets is therefore vital for judging the decisions and consequences of the central bank's actions.

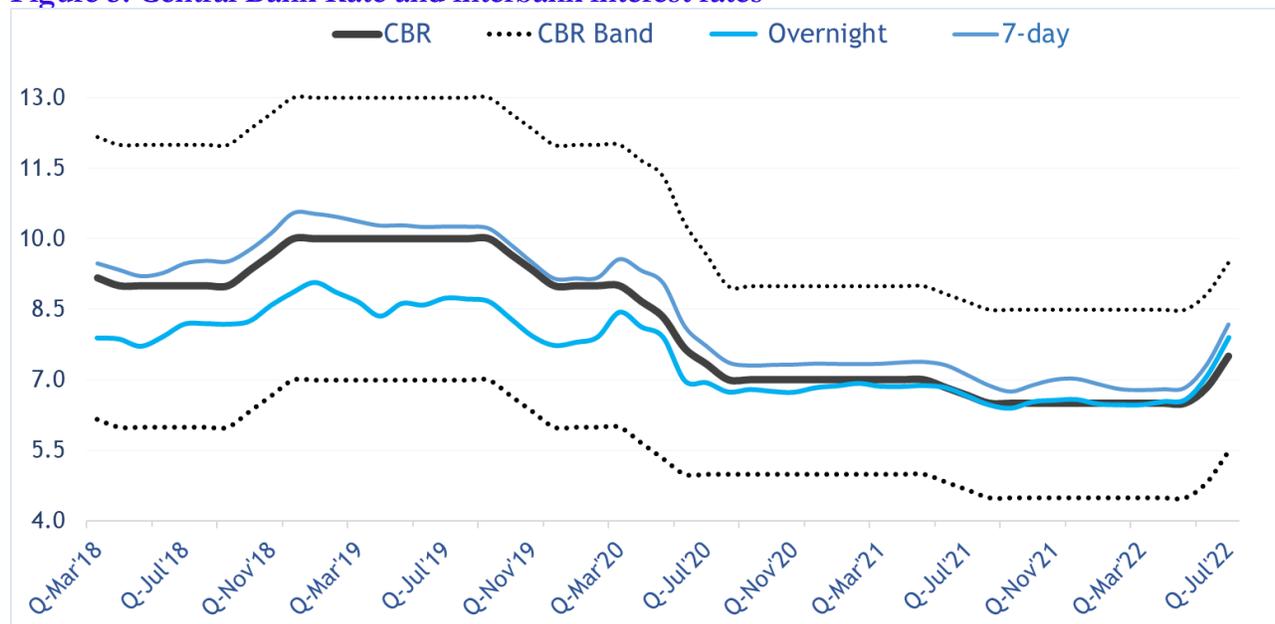
2.1.1 Interbank money market

Interbank money market rates remained anchored around the Central Bank Rate (CBR) in the quarter to July 2022, guided by the central bank operations as shown by **Figure 5**. In the quarter to July 2022, the 7-day and overnight interbank weighted average rate increased by 2.6 and 2.4 percentage points to 9.5 percent and 9.2 percent in July 2022. The steep rise in the money market rates was due to the 2-percentage point increase in the CBR and the 2 percentage points increase in the cash reserve requirement (CRR) ratio to 10 percent in June 2022.

The increase in the CRR provided supported the tight monetary policy stance by locking-in additional structural liquidity, which was beginning to spill-over and cause volatility in the foreign exchange market.

Indeed, in the quarter to July 2022, the liquidity conditions in the interbank money market remained very tight prompting some banks to fund their short-term liquidity obligations using the standing lending facility window.

Figure 5: Central Bank Rate and interbank interest rates



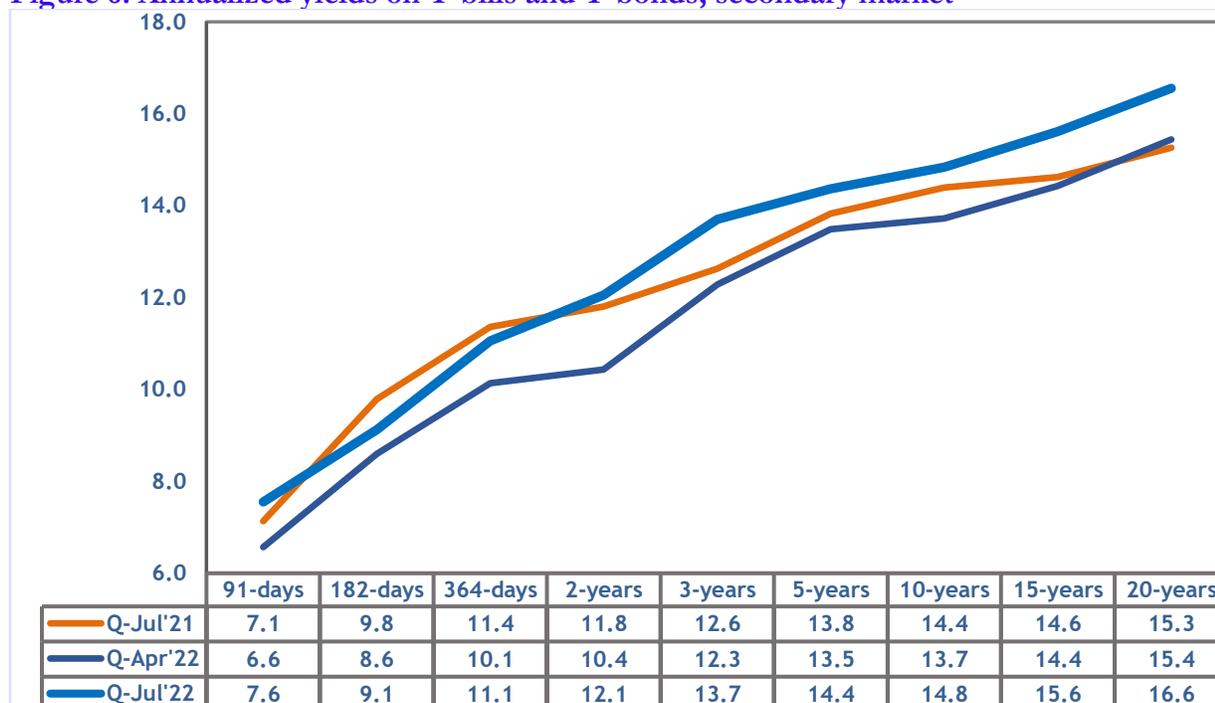
Source: Bank of Uganda

2.1.2 Primary market and secondary market for treasury securities

The yields in the primary market for treasury securities increased for all tenors of T-bills and T-bonds in the quarter to July 2022. Between April and July 2022, yields for the 91-day, 182-day and 364-day bills increased by 2.1 percentage points, 1.5 percentage points and 3.2 percentage points to 8.8 percent, 9.7 percent, and 12.3 percent in July 2022, respectively. Similarly, yields on the T-bonds have gone up by over 2 percentage points from the April 2022 levels, reflecting the tightening domestic and global monetary conditions.

Secondary market yields increased across the yield curve during the quarter to July 2022 as investors factored in global yield differentials and higher domestic inflation expectations. The yield curve shifted upwards and became steeper. On the shorter end, yields increased by between 60 to 100 basis points on average, while on the longer end they increased by between 110 to 210 basis points, surpassing the average levels in the same period in 2021 (**Figure 6**).

Figure 6: Annualized yields on T-bills and T-bonds, secondary market

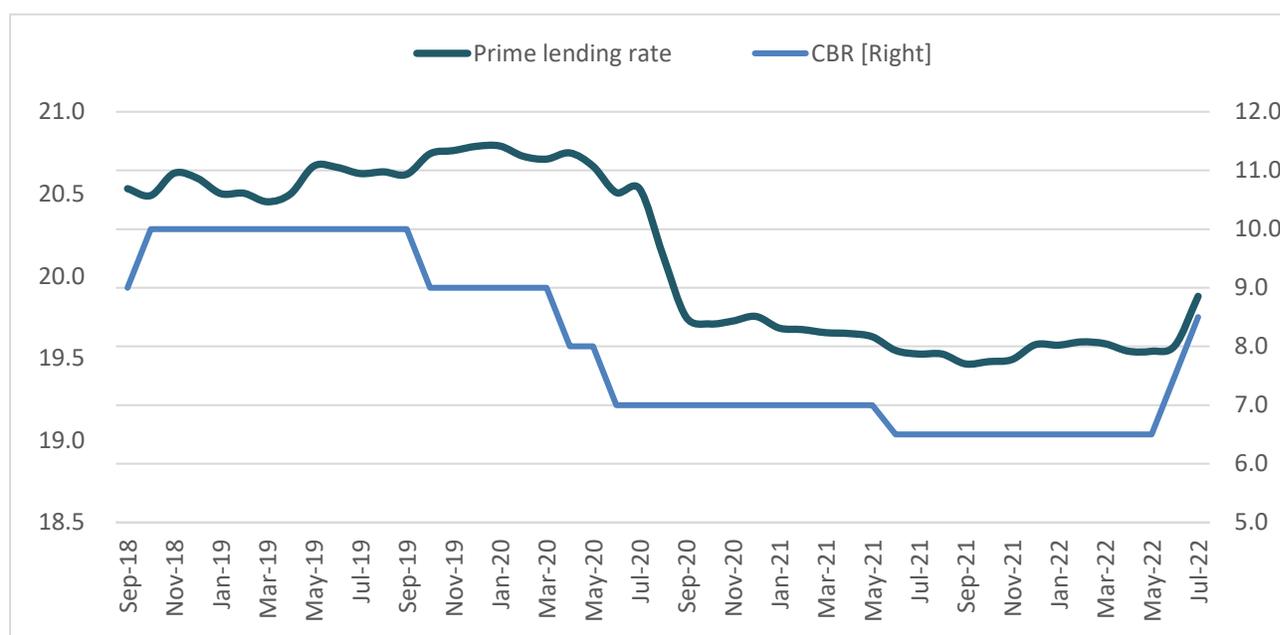


Source: Bank of Uganda

2.1.3 Lending interest rates

Reflecting the tightening monetary and financial conditions, some commercial banks embarked on an upward adjustment of their prime lending rates in July 2022 with magnitude of the increase ranging between 100 to 500 basis points for the shilling loans. The average commercial bank prime lending rate stood at 19.9 percent in July 2022, 30 basis points higher than the average since 2021 (**Figure 7**). As more banks gradually respond to the monetary policy impulses, the lending rates are expected to increase further going forward.

Figure 7: Average prime lending rates, commercial banks



Source: Bank of Uganda

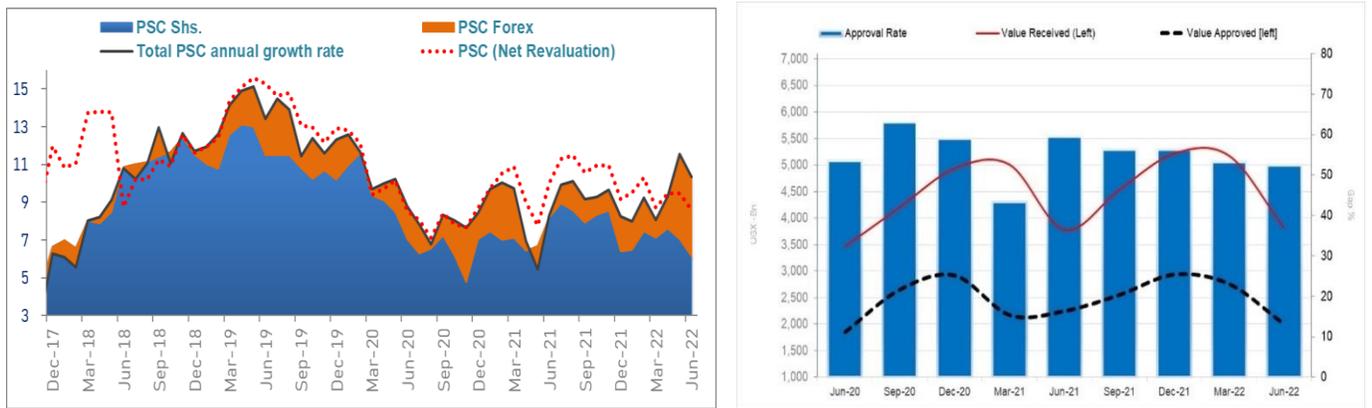
The weighted average lending rate in the quarter to June 2022 was 17.8 percent down from 19.2 percent in the quarter to March 2022. The decline was mainly on account of lending to prime clients in the petroleum and manufacturing sectors at low rates that had been negotiated prior to the monetary policy tightening cycle at the start June 2022.

2.1.4 Credit to the private sector

Private Sector Credit (PSC) growth remains weak owing to weak aggregate demand. The weak aggregate is being amplified by weakening balance sheets of both households and firms as the rising inflation takes a toll on the cash flows of both households and business sectors, inducing higher risk aversion of the lenders. The increasing risk version is exhibited by the reducing loan approval rate since the quarter to June 2021 (**Figure 8, Right**). Both the value of loans received and approved continued on a downward path in the quarter to June 2022, with lenders approving just 52.4 percent of applications in value terms.

Adjusting for the exchange rate changes, year-on-year growth in PSC averaged 9.2 percent in the quarter to June 2022, a slowdown from the 9.5 percent growth in the quarter to Mar 2022 (**Figure 8, the left**). Over the same period, growth in foreign currency-denominated loans rose to 11.8 percent from 4.6 percent reflecting depreciating exchange rate, while shilling denominated loans growth fell to an average of 9.8 percent in the quarter to June 2022 from 10.1 percent in the quarter to March 2022.

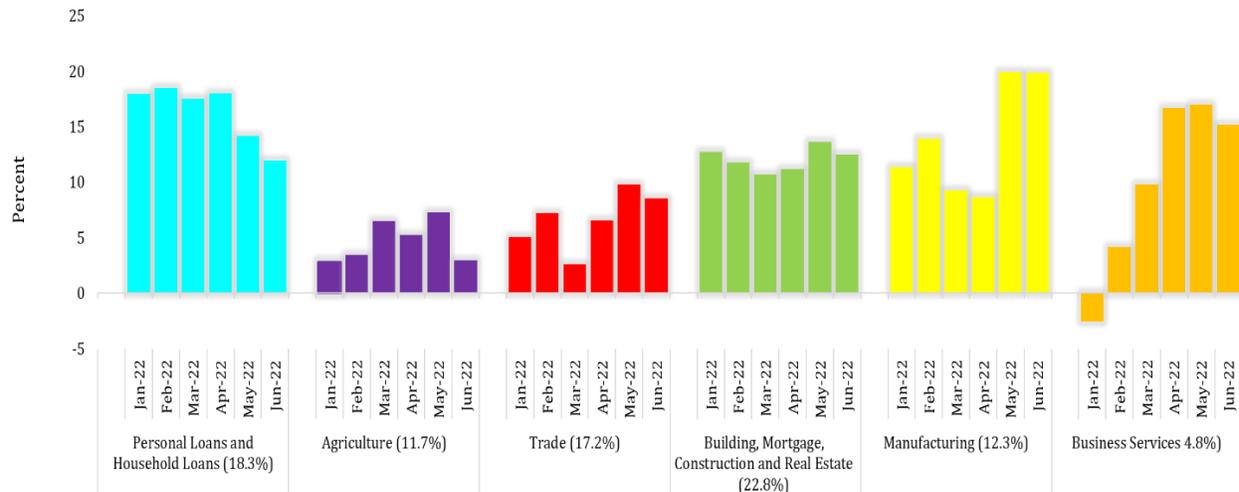
Figure 8: Private sector credit growth and loans applications (UGX -bn)



Source: Bank of Uganda

Credit growth is slowing down in most of the major sectors of the economy with a downward trend observed in the lead to June 2022. Slowdown of credit growth is apparent in the Personal and Households loans sectors and Agriculture (Figure 9).

Figure 9: Sectoral PSC Growth (%), year-on-year, sectoral shares in brackets



Source: Bank of Uganda

2.2 Domestic economic activity

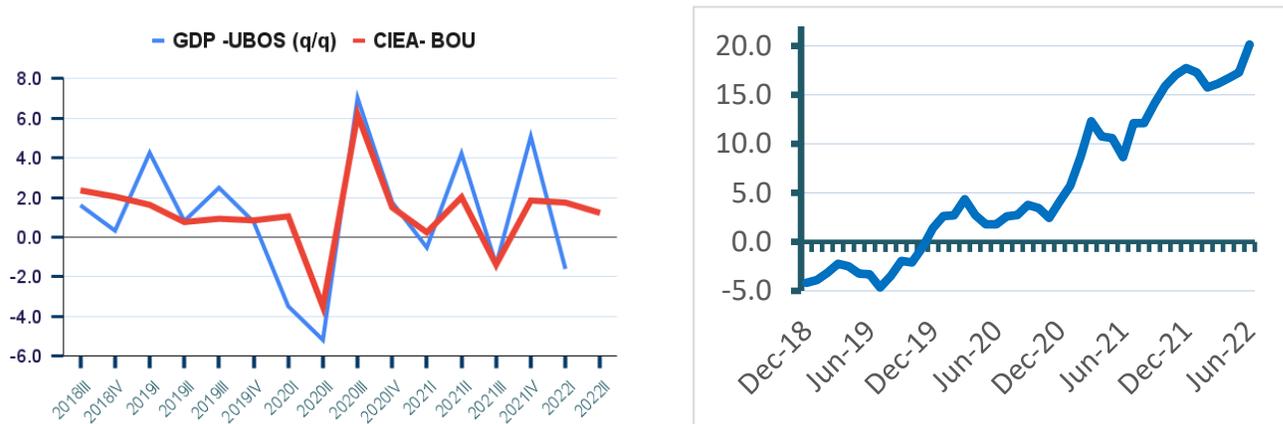
Although monetary policy is the adjusting of the supply of money in the economy to achieve non-inflationary economic growth. It is generally agreed that in the long run, output is fixed and any changes in money supply only leads to increases in prices. Nonetheless, because prices and wages are sticky in the short run, changes in money supply affect investment and consumption of durable goods, which in turn affect aggregate demand and economic activity. Therefore, a comprehensive assessment of economic activity is important to judge both the stance and consequences of monetary policy.

The adverse global economic environment and high and increasing domestic cost-push pressures reflecting in high consumer price inflation and production costs caused by negative spill-overs from the geopolitical tensions, Covid-19 induced supply chain disruptions and recent adverse weather conditions have dimmed further the prospects for domestic economic growth. Moreover, the tightening financial conditions at the back of BoU hawkish monetary policy stance to bring down inflation and cutback in fiscal expenditures are expected to inevitably affect growth negatively going forward.

Indeed, most soft and hard indicators of economic activity already point to hard times faced by businesses and consumers. The latest quarterly GDP estimates by UBOS indicated that the economy contracted by 1.6 percent in the quarter to March 2022. All sectors of the economy contracted with services sector taking the biggest hit. The growth of the Composite Index of Economic Activity (CIEA) also reduced from a quarter-on-quarter growth of 2.1 percent in December 2021 to 1.4 percent in March and June 2022. The growth of the CIEA slowed down to 3.9 percent year-on-year in June 2022 from 4.6 percent in March 2022 (**Figure 10**). Growth of economic activity is being dragged down by softening growth in the industry and services sectors. The slowdown in the industry and services sectors is largely consistent with the declining private sector credit in these sectors, which is the softening of business and consumer sentiments.

The Producer Price Index (PPI) for manufacturing and utilities indicates that firms are facing increasing marginal costs of production. The Index grew by 20.1 percent year on year in June 2022, persisting with double digit producer price inflation since March 2021 (**Figure 10, right**). In addition, the softening of the indicators which measures the strength of private absorption such as private sector credit, Purchasers' Manager Index, Business and consumer confidence index signals the tight conditions faced consumers and firms.

Figure 10: Growth in the CIEA (q/q, seasonally adjusted) and Produce Price Index (y/y, right)

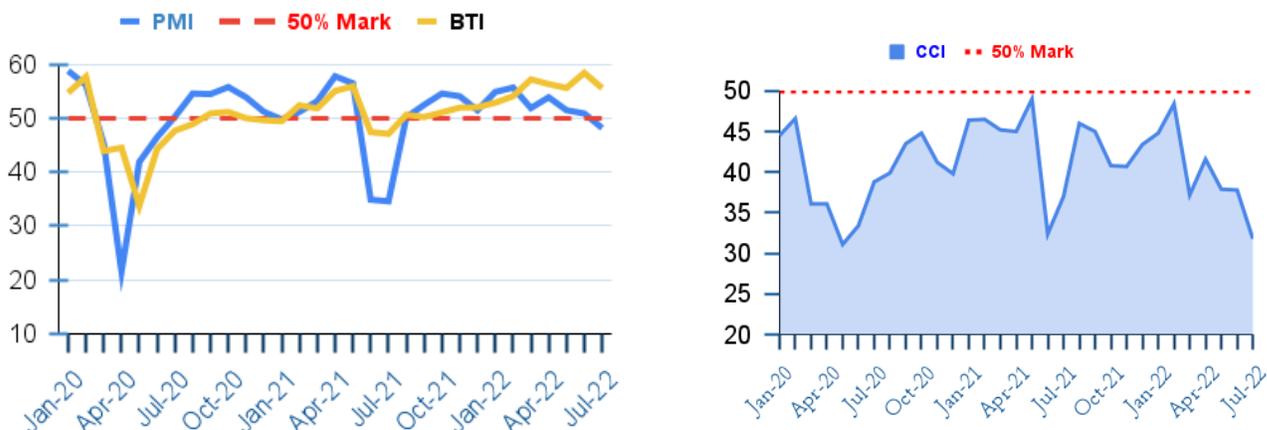


Source: BoU [CIEA] & Uganda Bureau of Statistics [GDP, PPI]

Both the Stanbic Purchasers Mangers’ Index (PMI) and the Bank of Uganda’s Business Tendency Index (BTI) points to deteriorating business operating conditions in July 2022 and therefore slowing growth in economic activity in the near term. The Business Tendency Index (BTI) stood at 55.6 in July 2022, a drop from the 58.4 in June 2022 and the PMI indicated contraction in business activities for the first time since July 2021 and slowing down for the third straight month (**Figure 11, left**).

Businesses continue to have a negative view about the present business situation as the index crossed back to the pessimistic territory and near-term outlook was less favourable. Consumer sentiments about present and expected economic situation remains negative and were more pessimistic in July 2022 (**Figure 11, right**). Consumer sentiments which were steadily improving after the full economy reopening started deteriorating since March 2022 reflecting the effects of rising inflation.

Figure 11: Indicators of Business Conditions (seasonally adjusted) and Consumer Confidence index



1. Source: BoU [BTI]

The Business Tendance Index is compiled bank of Uganda and is a sectoral weighted average of Agriculture (27.2%), Construction (6.4%), Manufacturing (17.4%), Other services (38.1%) and Wholesale & retail trade (10.9%). The Index is compiled from responses to questionnaires sent to about 300 private sector companies.

2. Source: S&P Global [PMI]

The Stanbic Bank Uganda PMI is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 400 private sector companies which are stratified by sector and workforce size, based on contribution to GDP and employment size. The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Source: BoU

The Consumer Confidence index is compiled Bank of Uganda and computed from responses of 500 randomly selected simcard holders on the MTN and Airtel. The index is combination of respondents Sentiments about present and expected economic situations

Overall, economic growth prospects have been dimmed further with increasing risks of a global recession due to hawkish monetary polies by advanced economies, weaker consumer and business sentiments as high inflation and commodity prices continue to erode households and business incomes. In addition, the cutback in fiscal expenditure is expected to negatively impact aggregate demand. As such, economic growth is now projected in the range of 2.5-3.0 percent in 2022, but will rise to 5.0-6.0 percent in 2023, in part supported by public investments and recovery in demand as inflationary pressures begin to wane. The risks to the growth outlook are however tilted to the downside, including the emergence of a global recession, escalation of geopolitical conflicts, heightened global economic uncertainty and higher inflation. Other downside risks are a further decline in consumer confidence, heightened exchange rate volatility and extended weakening of investor optimism.

In the medium term, the economy is projected to grow in the range of 6.5 – 7.0 percent, supported by public and private investments in the oil sector.

2.3 Fiscal operations

Fiscal policy is an important stabilization tool. In the short-term, counter-cyclical fiscal expansion can help support aggregate demand and economic activity, while fiscal contraction can help cool down an overheating economy. To ensure non-inflationary economic growth therefore, an enhanced coordination of fiscal and monetary policies plays a crucial role in the overall macroeconomic management and the attainment of sustainable economic growth.

2.3.1 Expenditure and revenue developments

Fiscal policy was contractionary during FY2021/22, as the fiscal deficit including grants contracted to 7.3 percent of GDP from 9 percent in 2020/21. However, the implementation of the budget was constrained by lower-than-projected domestic revenues and grants (Table 2). Fiscal revenues including grants amounted to 14.2 percent of GDP, 0.5 percent of GDP lower than the FY2021/22 budget and the outturn for FY2021/22. At 21.4 percent of GDP, total expenditure and net lending was lower by 2.3 percentage points, largely due to a marked 2.3 percent contraction in development spending, which more than offset the increase in current spending. The contraction of development spending is due to slow execution of some government development projects and delayed disbursement of some of the project grants and loans. On the other hand, current expenditure at 13 percent of GDP, overshoot the approved budget and was 0.4 percent of GDP higher compared to the level recorded in FY2020/21 largely reflecting the increased interest payments on domestic public debt that grew by 30 percent to UGX3,950.4 billion. The payment of arrears was Shs. 205.8 billion above target on account of government's continuous effort to expedite the clearance of the outstanding arrears to boost private sector activity.

More than half of the deficit financing came from net domestic borrowing amounting to UGX5,585.6 billion or 3.4 percent of GDP and it was almost double the amount included in the initial approved budget and almost the equivalent of the shortfall in the projected external financing (**Table 2**).

Table 2: Fiscal operations (billions shilling)

	Jul-Jun'21	Jul-Jun'22	Approved Budget	Variation	Annual change (%)
Revenue & Grants	21,792.5	22,992.3	23,849.7	-857.4	5.5
Revenue	19,838.8	21,830.3	22,425.4	-595.1	10.0
Grants	1,953.8	1,162.0	1,424.4	-262.4	-40.5
Expenditure & Lending	35,206.3	34,753.8	34,232.5	521.3	-1.3
Current Expenditure	18,686.1	21,111.6	18,996.9	2,114.7	13.0
o/w Interest payments	4,055.6	4,753.7	4,697.8	55.9	17.2
Domestic	3,020.0	3,950.4	3,467.9	482.5	30.8
External	1,035.6	803.4	1,230.0	-426.6	-22.4
Development Expenditure	15,085.0	12,784.9	14,754.9	-1,970.0	-15.2
Net lending/repayments	640.9	251.5	110.7	140.8	-60.8
Primary Deficit	-9,358.2	-7,007.8	-5,685.0	-1,322.8	-25.1
Deficit (excluding grants)	-15,367.5	-12,923.5	-11,807.2	-1,116.3	-15.9
Deficit (including grants)	-13,413.8	-11,761.6	-10,382.8	-1,378.8	-12.3
Financing (net)	13,413.8	11,761.6	10,382.8	1,378.8	-12.3
External Financing (net)	6,000.0	4,823.4	7,240.2	-2,416.8	-19.6
Domestic Financing (net)	6,798.0	5,585.6	3,142.6	2,443.0	-17.8
Errors & Omissions	615.7	1,352.6			

Source: Ministry of Finance Planning and Economic Development

Revenue collections for the FY2021/22 amounted to 13.5 percent of GDP, 0.4 percentage points below the budget on account of both Tax and non-tax revenues. The net tax revenue and Non-Tax Revenue (NTR) underperformed the target by UGX. 451.3 billion and UGX. 142.9 billion, respectively (**Table 3**). The shortfall in the net URA tax revenues was primarily attributed to the underperformance of indirect taxes, most especially Value Added Tax on beer, spirits, soft drinks, others and excise duties on beer, spirits, phone talk time and internet data. Direct domestic taxes were below target by UGX. 38.2 billion mainly on account of shortfalls in collections of Withholding Tax, Corporate tax and Rental Income tax. The lower shortfall on this tax heads reflects administrative efforts such as improved management of arrears, expansion of the register that currently holds more than 2.5 million taxpayers, country wide customs enforcement initiatives, as well as alternative dispute resolution mechanisms that enhanced tax collections leading to a lower variance from target. International trade tax collections performed overwhelmingly well above the target boosted by VAT on imports.

Table 3: Revenue performance (billion shilling)

	Jul-Jun '21	Jul-Jun'22	URA Target 2021/22	Jun'22 Variation from Target	Annual Change %
Overall net revenue	19,598.31	21,831.18	22,425.37	(594.19)	11.39
Net URA tax revenue	18,336.78	20,425.63	20,876.95	(451.31)	11.39
Gross revenues	19,985.18	22,271.23	22,864.47	(593.24)	11.44
Direct Domestic Taxes	6,619.40	7,375.64	7,413.85	(38.22)	11.42
Indirect Domestic Taxes	4,472.90	4,942.60	5,689.50	(746.90)	10.50
o/w Mobile Money Transfers	113.98	133.98	125.07	8.92	17.55
o/w Levy on Mobile money withdrawals	137.72	164.58	112.36	52.21	19.50
Taxes on International Trade	7,505.86	8,434.17	8,140.49	293.69	12.37
Stamp duty & Embossing Fees	125.49	113.28	72.22	41.07	(9.73)
Total NTR	1,261.53	1,405.55	1,548.42	(142.87)	11.42
Tax Refunds	(386.87)	(440.05)	(439.11)	(0.95)	13.75

Source: Ministry of Finance Planning and Economic Development

2.3.2 Public debt stock

Provisional data on total public debt stock show that as at the end of the end June 2022 public debt stock stood at Shs. 78,879.8 billion which is 48.7 percent of GDP. This represents a 12.3 percent increase in comparison to June 2021. The increase in public debt was largely driven by an increase in domestic debt driven by both underperformance of tax revenue and growing expenditure pressures. Public external debt continues to maintain the dominant share of 61.1 percent of the total public debt.

Table 4: Total public debt stock (Shs. billion)

Public Debt Indicator	Jun'20	Jun'21	Prov. Jun'22	Change Jun'20 - Jun '21 (%)	Change Jun'21 - Jun '22 (%)
Total Gross Debt (Shs.Bn)	57,432.6	70,224.1	78,879.8	22.27	12.33
External (Shs. Bn)	39,184.5	44,772.9	48,218.2	14.26	7.70
Domestic (Cost, Shs. Bn)	18,248.1	25,451.1	30,661.6	39.47	20.47
External (US\$, Mn)	10,504.8	12,588.3	12,832.4	19.83	1.94
<i>US\$/US\$ end of period rate</i>	<i>3,730.1</i>	<i>3,556.7</i>	<i>3,756.7</i>	<i>-4.65</i>	<i>5.62</i>

Source: Bank of Uganda

2.3.3 Fiscal Outlook

In FY 2022/23, the cash limits for the first quarter were cut back by approximately Shs. 4 trillion. With the momentum in economic recovery expected to slow down reflecting the effects of the high inflation and high costs of production on consumption and investment amidst tight monetary and fiscal conditions, tax revenue collections are likely to be lower than budgeted. The expected low performance of revenue and underperformance of budget support grants will put more pressure on domestic financing.

In the coming months, the ratio of debt to GDP is expected to increase as some of the scheduled disbursements that didn't materialize in during FY 2021/22 will be disbursed in the first quarter of the

current financial year, in addition to the new domestic and external financing. The domestic borrowing requirement for FY 2022/23 as approved by Parliament stands at Shs. 5.01 trillion.

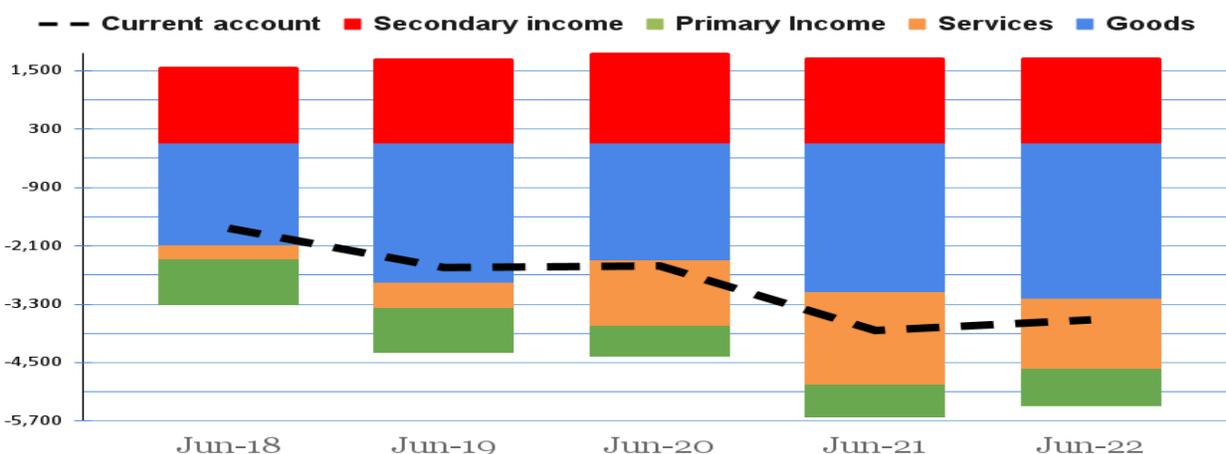
2.4 Balance of payments and exchange rates

A large current account (CA) deficit usually implies an external imbalance, which in a flexible exchange rate regime can be corrected by a depreciation of the real exchange rate. However, persistent CA deficits reflect an unsustainable balance of payment position and requires structural reforms to enhance domestic productivity and financing capacity.

2.4.1 Balance of payments

Uganda’s current account deficit narrowed by US\$ 218.5 million to US\$ 3,620.6 million during FY2021/22 (**Figure 12**). As a percent of GDP, this represents an improvement from 9.5 percent, to 8 percent. This improvement primarily reflects a 24.3 percent narrowing of the deficit on the services account owing to the rebound of the tourism activity as pandemic-related travel restrictions eased globally. In contrast, however, all the other sub-accounts registered deteriorations. The merchandise trade and primary income deficits widened due to rising interest payments on public debt while the secondary income surplus contracted somewhat during the reporting year relative to FY2020/21.

Figure 12: Current Account decomposition for Year ending June 2022 (USD million)

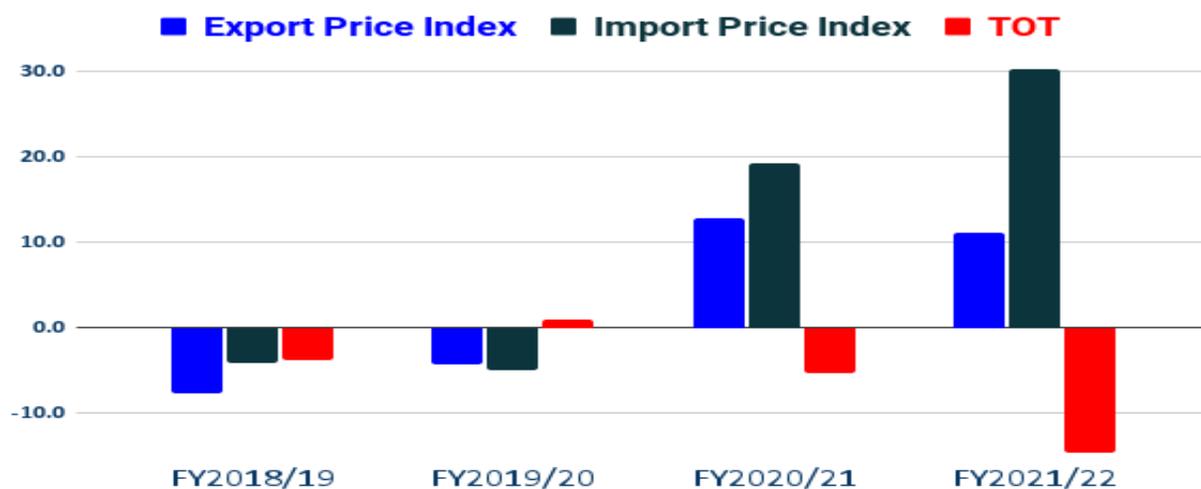


Source: Bank of Uganda

The widening of the trade deficit reflects the deteriorating Terms of Trade (TOT) which worsened by 15 percent during the financial year. This magnitude of TOT worsening is almost triple what was observed the year before (**Figure 13**). The deterioration reflects the huge upsurge in prices of imports at a pace that largely surpassed that of exports owing to the war induced escalation in global commodity

prices. The imports price index grew by 30 percent compared to the minuscule 11 percent growth in export prices.

Figure 13: Growth of terms of trade, imports and export prices

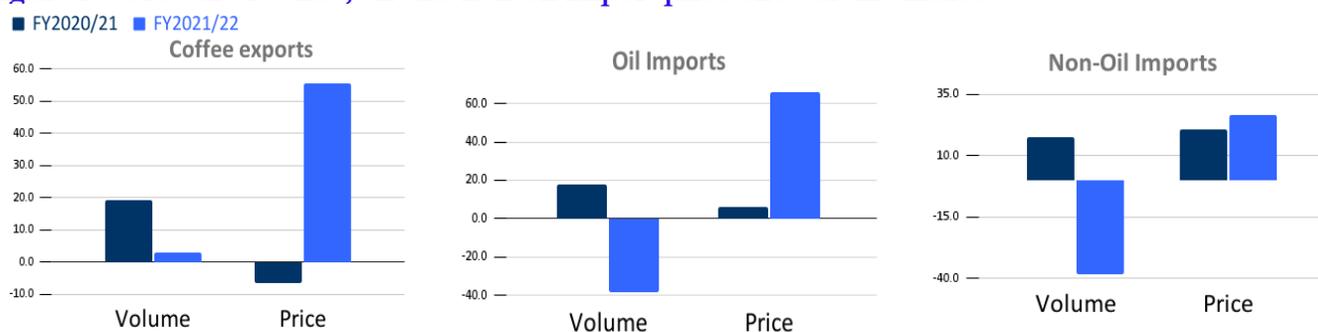


Source: Bank of Uganda

The rise in import price index was due to the combination of the surge of oil and non-oil imports prices which respectively rose by 66 percent and 26.8 percent in the period that was larger than the respective increases of 6.4 percent and 20.6 percent the previous year. Similarly, coffee benefited from the increase in global prices keying in a 55.5 percent rise in the price as opposed to a reduction the previous year. As such, coffee exports grew by 55.4 percent to US\$862.2 million from US\$ 554.9 million the previous financial year.

Clearly, except for coffee exports, volume of exports and imports fell significantly indicating weaker domestic and foreign demand. For oil imports, the price effect dominated the volume effect leading to a 49 percent expansion of the value of oil imports to US\$1,237.3 million despite the 12 percent contraction in volumes (**Figure 14**). Similarly, the volume of non-oil imports declined by about 40 percent while the volume of on non-coffee exports index fell by 34 percent.

Figure 14: Growth of coffee, oil and non-oil import price and volume indices



Source: bank of Uganda

Reflecting the improvement of the current account deficit, the financial inflows somewhat tapered during FY2021/22, with the net financial inflows contracting by 13.4 percent to US\$2,967.14 million or 6.7 percent of GDP from US\$3,428 million or 8.5 percent of GDP the previous year. This was largely driven by portfolio capital reversals amounting to US\$273.8 and a reduction of the other investment net inflows, particularly net inflow of loans for budget and project support to the governments, which reduced by 31.8 percent due to a combination of reduced loan disbursements and increases in external debt principal repayments. Portfolio capital reversals and placement of deposits abroad was triggered by the rising yields in advanced economies due to the hawkish monetary policy. However, foreign direct investment inflows at US\$1,214.9 million or 2.7 percent of GDP saw a growth of 32 percent and offered significant support to financing of the current account deficit.

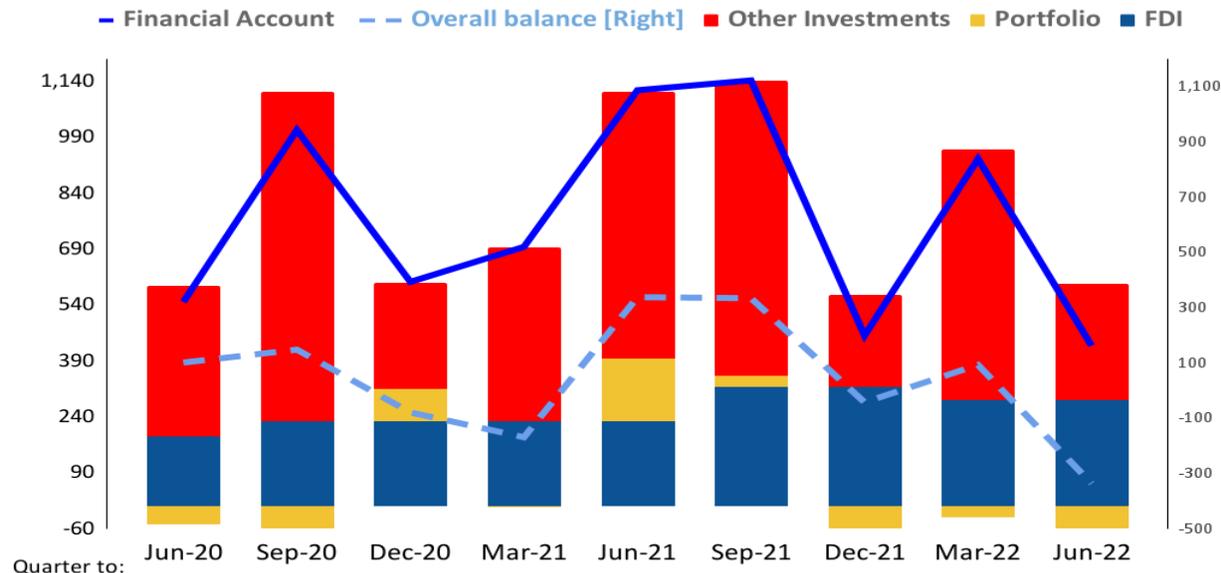
Overall, the balance of payments was in surplus of US\$ 51.4 million in FY2021/22, buttressed by the US\$ 490.8 million IMF Special drawing rights (SDR) allocation in August 2021. This played a crucial role in providing support to the gross international reserve amidst foreign exchange intervention sales of US\$564.7 million to stem the excessive volatility in the interbank foreign exchange rate market which had heightened especially in the last half of the year.

Uganda’s overall balance of payments position was in a deficit of US\$336.0 million in the quarter to June 2022, a reversal from a surplus of US\$93.8 million in the quarter to March 2022. This resulted in a drawdown of the reserves to finance the deficit. As such, the stock of reserves reduced to US\$4,099.3 million or 4.2 months of import cover as at end of June 2022, down from US\$4,533.0 as at end March 2022.

On a quarterly basis, the current account deficit narrowed by 13.2 percent to US\$846.0 million, driven by an increase in the secondary income surplus, contraction in the primary income deficit and the improvement in the terms of trade which kept the trade balance flat. The secondary income surplus widened by 19.8 percent to US\$498.4 million, largely attributed to higher private transfer inflows (remittances and NGO inflows) while the primary income account deficit narrowed by 25.9 percent to US\$157.5 million, on account of lower interest payments on public external debt. The trade balance was relatively unchanged as the growth of exports at 7.1 percent was almost double that of imports. Exports grew to USD 1,072.8 million supported by both price and volume increases for most of the commodities while imports growth was supported by a fall in government imports. However, private sector imports, particularly for investment purposes grew by 9.2 percent as global commodity prices persists given the relatively unchanged imports volume in the review quarter.

The financial account surplus sharply contracted, narrowing by over 50 percent to US\$431.6 million in the quarter to June 2022, reflecting increasing portfolio capital outflows and outflow of other investments amidst unchanged FDI inflows. Portfolio investment registered net outflows of US\$166.7 million in the quarter to June 2022, six times lower than the outflows registered in the quarter to March 2022 pulled by interest rate hikes in advanced economies. Net exit from the domestic debt market amounted to US\$110.4 million in the quarter under review. The other investment inflows more than halved to US\$310.5 million in the reporting quarter (**Figure 15**).

Figure 15: Quarterly financial accounts developments (US\$ Millions)



Source: Bank of Uganda

2.4.2 Balance of payment outlook

In the near term, the external sector outlook is subject to various downside risks, including intensifying geopolitical tensions, continued elevation of commodity prices and intensification of global financial markets volatility and tightness. The challenging global environment may continue to increase investor risk averseness for domestic financial assets and induce flight to safety, heightening exchange rate depreciation pressure.

In the medium term, the current account deficit is projected to widen, before progressively narrowing into FY2026/27. The trade deficit will follow the same path, as imports are expected to steadily increase driven by capital investment in the oil projects. On the upside, the current account will be supported by the continued easing in supply chain pressure translating into lower flight charges, increased export revenues boosted by intra-African trade through the Africa Continental Free Trade Area (AfCFTA), persistent remittance inflows and stable tourism receipts. In addition, oil exports, expected to start in 2025 will increase significantly in the subsequent years.

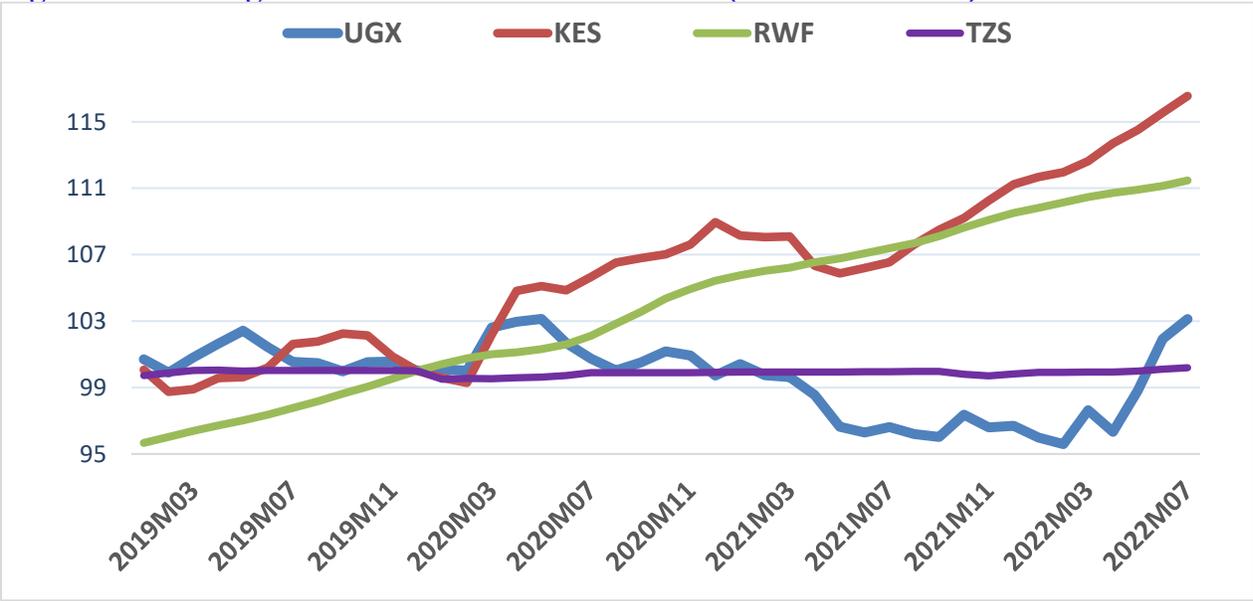
The financial account surplus is projected to gradually narrow throughout the medium term, owing to decreased budget support loan inflows and rising scheduled external debt repayments. On the other hand, the financial surplus will be bolstered by strong FDI inflows associated with oil sector-related capital investment.

2.4.3 Exchange rates

In the quarter to July 2022, the shilling depreciated by 4.9 percent quarter-on-quarter and year-on-year, driven by tighter global financial conditions, deteriorating terms of trade and bearish sentiments. In July 2022, the pace of depreciation was significantly checked by the tight liquidity conditions in the money markets at the back of the tightening of monetary policy, an increase in the cash reserve requirement and low pace of recovery in economic conditions. The depreciation trend, however, has persisted amidst the global strengthening of the US dollar and tight global financing conditions.

The currencies of the East African Community (EAC) member states also experienced depreciation pressures in the recent past but not to the extent of the Uganda Shilling.

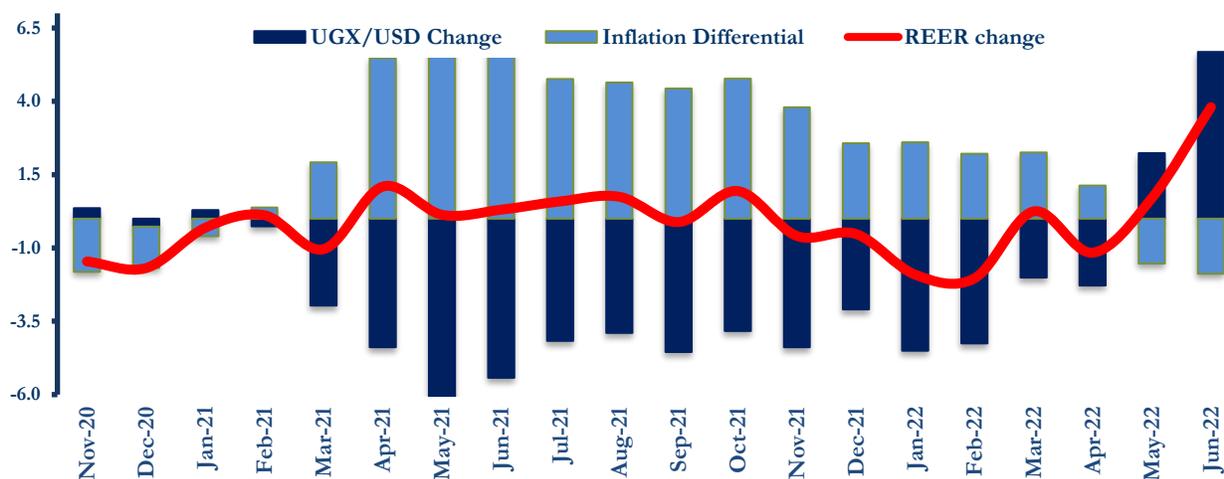
Figure 16: Exchange rates for selected EAC countries (Indices 2020=100)



Source: Bank of Uganda

In the quarter to June 2022, the Real Effective Exchange Rate (REER) appreciated by 1.1 percent, year-on-year but depreciated by 1.9%, quarter-on-quarter on account of nominal depreciation of the shilling (Figure 17). This is indication of marginal costs of importin and therefore heightening imported inflation in production and consumption.

Figure 17: The real effective exchange rates



Source: Bank of Uganda

2.5 Domestic inflation and outlook

Domestic inflation is driven by domestic and external demand and supply-side factors. A careful assessment of the evolution and outlook for inflation is therefore critical for the design of appropriate monetary policy strategy, which in Uganda, is formulated to deliver a medium-term core inflation target of 5 percent and to ensure that output is as close to its potential level as possible.

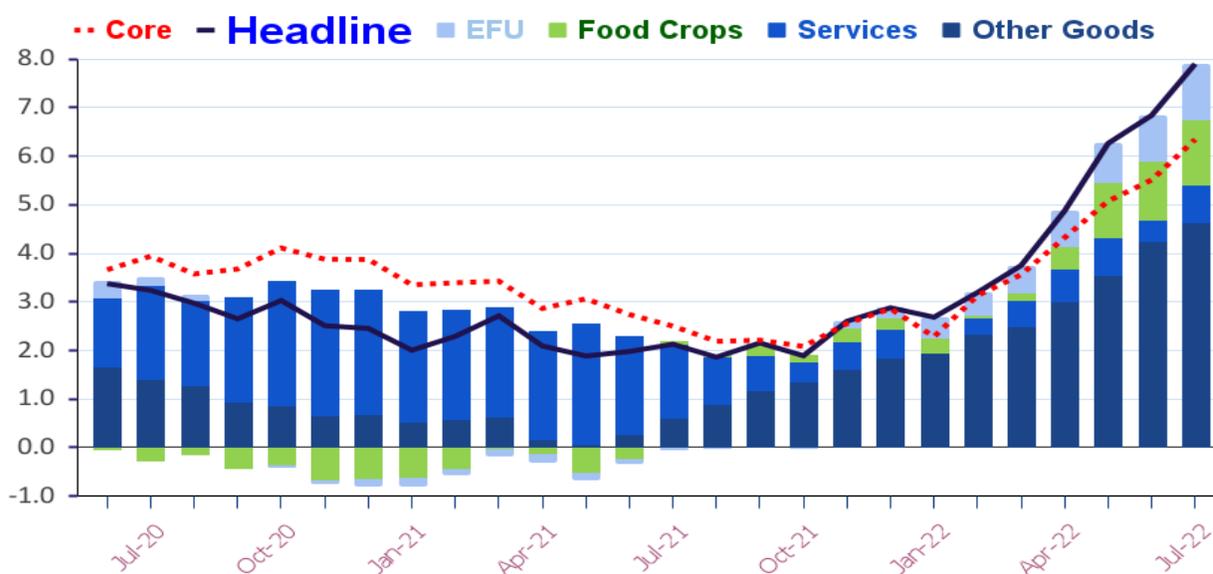
2.5.1 Domestic inflation

Inflationary continued to mount pressures in July 2022 coming from mainly the acceleration of the prices of services and food crops and related items. Inflationary pressures from the “other goods” seem to be waning as prices of commodities driving the increase in the “other goods inflation might have found their peaks, while the pressures from the Electricity Fuel and Utilities continue to persist. Driven by these developments, headline inflation rose to 7.9 percent in July 2022 from 6.8 percent in June 2022, while core inflation rose to 6.3 percent from 5.5 percent that was registered in the same period (Figure 18). Services inflation picked up to 2 percent from 1.1 percent reflecting increases in transport and communication as energy prices take a toll on the domestic prices, while “other goods” inflation rose to

10.2 percent from 9.3 percent in June 2022 driven by mainly by processed food items such as maize flour, rice, wheat, cassava flour and cooking oil which are also linked to the prolonged dry weather conditions.

Non-core inflation rose to 16.8 percent in July 2022 from 14.3 percent in June 2022, due to increases in both food crops and EFU inflation that rose to 16.4 percent and 17.2 percent in July 2022 from 14.5 percent and 14.2 percent in June 2022, respectively. The hike in food crops inflation is caused by the recent prolonged drought.

Figure 18: Domestic inflation decomposition (y/y)



Source: UBOS

2.5.2 Inflation outlook

The inflation outlook is significantly uncertain. However, the BoU assesses that the balance of risks to the inflation outlook is tilted to the upside. On the upside, a further intensification of geopolitical tensions could ignite a renewed surge in energy prices and impact on global trade, further negative spill overs from the war in Ukraine could worsen supply bottlenecks resulting in a surge in commodity prices. Faster policy rate tightening by advanced economies could intensify capital outflows from Uganda leading to a more depreciated exchange rate. Higher global inflation due to food and energy prices as well as lingering supply-demand imbalances and poor weather conditions are likely to put pressure on the domestic

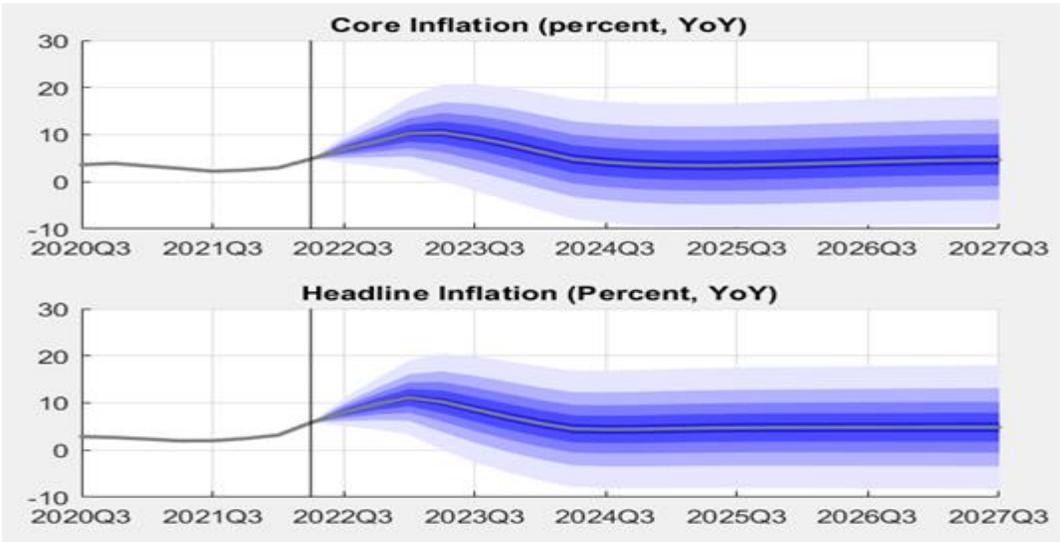
inflation. On the downside, domestic growth could slow down further as higher interest rates aimed at reigning in inflation affect real incomes and private sector credit. Also, the ongoing fiscal policy tightness will negatively impact on aggregate demand and growth.

2.5.3 Baseline inflation forecast

The baseline assumptions include the slowdown in growth attributed to dampened demand caused by inflationary pressures, tighter monetary conditions, and higher costs of production arising from fuel and transportation costs. The baseline assumptions also incorporate the effects of projected slowdown in global growth due to monetary policy tightening in advanced economies, negative spill overs from the Russia-Ukraine, major slowdown in China growth due to the Zero Covid-19 tolerance policy, continued rise in foreign inflation, high crude oil prices that are expected to stay above USD 100/barrel. Foreign inflation is expected to continue rising due to supply distortions, tight labour markets in advanced economies and weather-related issues. In addition, as much as the OPEC and its allies agreed to increase oil production, crude oil prices are still expected to stay above USD 100/barrel until the second quarter of 2023. The rising food and energy prices compounded by weaker shilling have continued to mount pressures on inflation going forward for the remaining part of 2022.

Annual headline and core inflation is now forecast to average 7.0 percent and 6.0 percent, respectively in 2022 (**Figure 19**), lower than the 7.4 percent and 6.3 percent that was projected in the July 2022 forecast round. Inflation is expected to peak in the first quarter of 2023 before gradually declining to the medium-term target of 5 percent by mid-2024.

Figure 19: Baseline inflation forecast

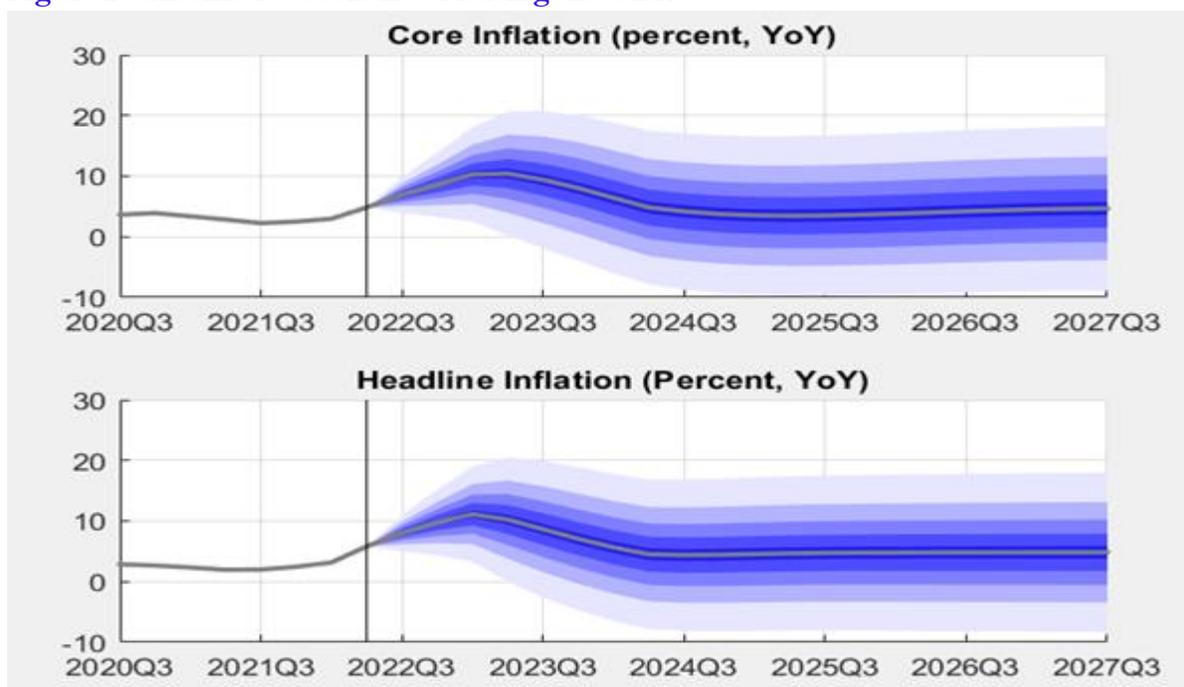


Source: Bank of Uganda

2.5.4 Alternative forecast scenarios

Considering the risks to the inflation outlook, alternative forecast scenarios were prepared. The first scenario considered the effect of raising the CBR by 1 percentage point in August and to 11.5 percent in December 2022. In this scenario, core inflation and headline inflation would be 0.2 percentage points lower than the baseline in 2023 (**Figure 20**).

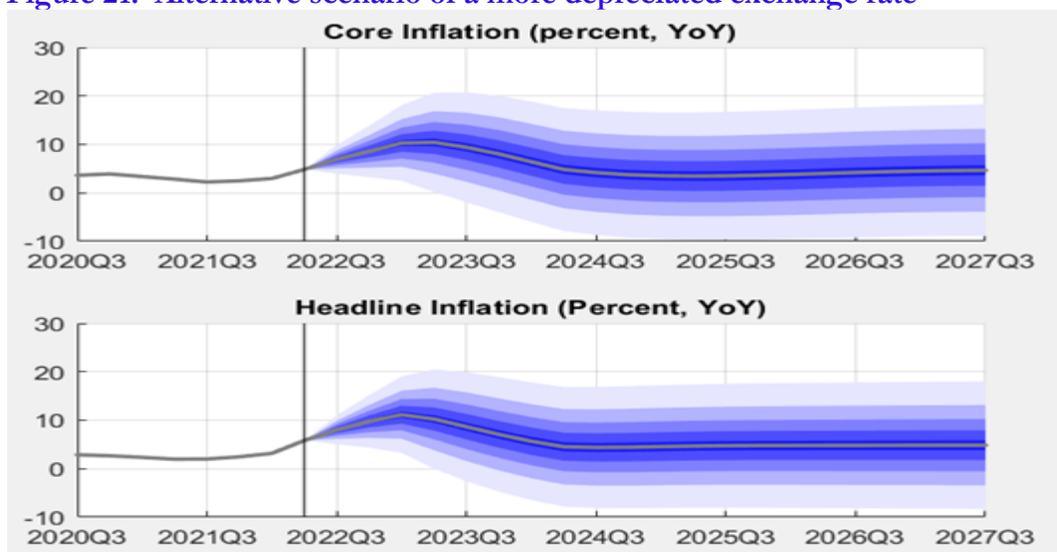
Figure 20: Alternative scenario of raising the CBR



Source: Bank of Uganda

The second alternative scenario considers the effect of a more depreciated exchange rate of 5 percent over the forecast horizon. In this scenario, headline and core inflation would be 2.3 percentage points and 2.4 percentage points higher than the baseline in 2023 (**Figure 21**).

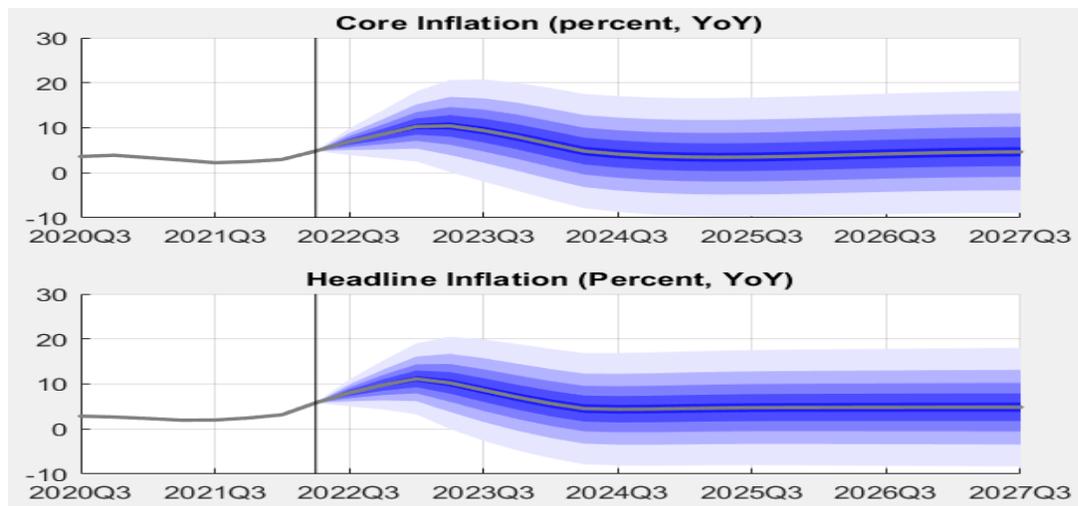
Figure 21: Alternative scenario of a more depreciated exchange rate



Source: Bank of Uganda

The third alternative scenario considered the effect of lower growth in the range of 2-3 percent in financial year 2022/23 and 2023/2024. In this scenario, headline inflation and core inflation would be 0.4 percentage points and 0.6 percentage points lower than the baseline in 2023 (Figure 22).

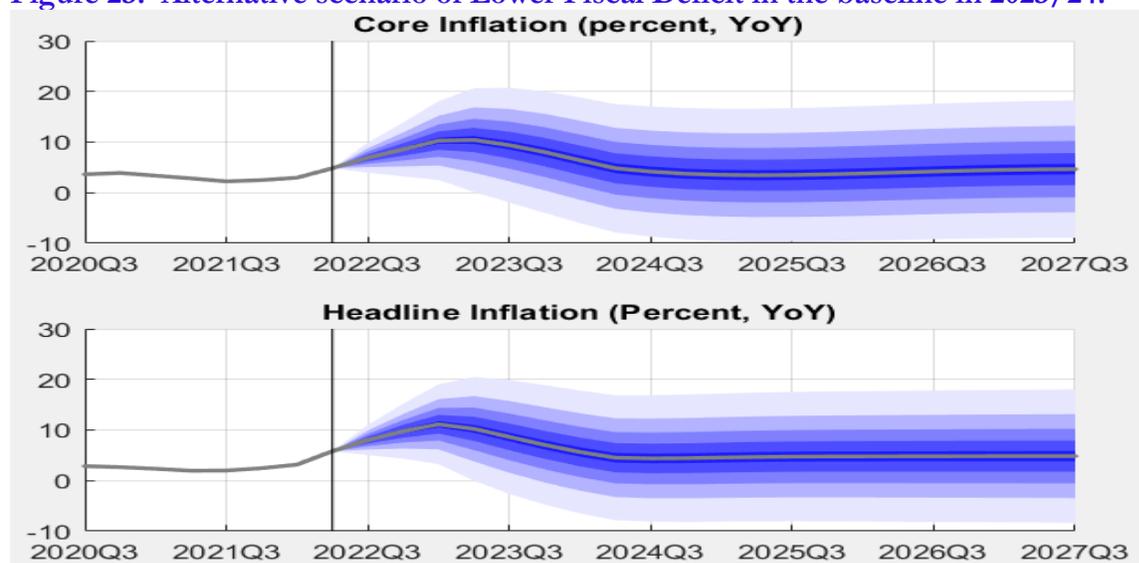
Figure 22: Alternative scenario of Lower domestic growth in FY 2022/23 and 2023/2024.



Source: Bank of Uganda

The fourth alternative scenario considered the effect of Lower Fiscal Deficit of 3.9 percent compared to 5.3 percent in the baseline in 2023/24. In this scenario, core inflation and headline inflation would be 0.2 percentage points lower than the baseline in 2023 (Figure 23).

Figure 23: Alternative scenario of Lower Fiscal Deficit in the baseline in 2023/24.



Source: Bank of Uganda

3 MONETARY POLICY DECISION

Monetary policy affects the real economy and prices with a considerable lag. A critical assessment of the future trajectory of economic activity and inflation relative to their potential levels and targets is thus crucial to determine an appropriate forward-looking monetary policy strategy.

The economy continues to face strong cost-push inflation pressures from the external environment, dry weather conditions, and exchange rate depreciation amidst weak domestic demand. The annual headline and core inflation rose to 7.9 percent and 6.3 percent in July 2022 from 6.8 percent and 5.5 percent in June 2022, respectively. Annual food crop inflation continued to rise from 14.5 percent in June 2022 to 16.4 percent in July 2022 and annual Electricity, Fuel and Utilities (EFU) inflation rose from 14.2 percent to 17.2 percent in the respective months. The BOU forecasts show that inflation for 2022 remains in the range of 7.0 to 7.4 percent. The inflation outlook is driven by the lagged impact of higher exchange rate depreciation, dry weather that has resulted in the sharp rise of food crop prices and a pass-through of global inflationary pressures.

The risks to the outlook for inflation are tilted to the upside and they include further intensification of geopolitical tensions which could ignite a renewed surge in oil prices, faster policy rate tightening by advanced economies which could result in higher depreciation of the shilling, continued escalation of global inflationary pressures, persistent high world food and energy prices, higher domestic food prices

if dry weather become more protracted and a possibility of de-anchoring of inflation expectations. However, possible downside risks include weaker domestic household consumption, an earlier emergence of global recession which could dampen global inflationary pressures faster, a rebound in favourable rainfall across the country and accelerated easing of global supply chain pressures.

Quarterly GDP estimates by UBOS indicated that the economy contracted by 1.6 percent in March 2022. All sectors of the economy contracted with services sector taking the biggest hit. The growth of the composite index of Economic activity (CIEA) also reduced from a quarter-on-quarter growth of 2.1 percent in December 2021 to 1.4 percent in March and June 2022. The growth of the CIEA slowed down to 3.9 percent year on year in June 2022 from 4.6 percent in March 2022.

Overall, economic growth prospects have been dimmed further with increasing risks of a global recession, and weaker consumer and business sentiments as high inflation and commodity prices, continue to erode households and business incomes and financial conditions tighten. Economic growth is now projected in the range of 2.5-3.0 percent in 2022, partly reflecting the effects of higher costs of production arising from fuel and transportation on activity, but will rise to 5.0-6.0 percent in 2023, in part supported by public investments and recovery in demand as inflationary pressures begin to wane.

The risks to the growth outlook are tilted to the downside, including the emergence of global recession, escalation of geopolitical conflicts, heightened global economic uncertainty and higher inflation. Other downside risks are a further decline in consumer confidence, heightened exchange rate volatility and extended weakening of investor optimism. In the medium term, the economy is projected to grow in the range of 6.5 – 7.0 percent, supported by public and private investments in the oil sector.

In the near term (12 months ahead) BOU forecasts that, inflation pressures will continue to rise. While the current increases in the CBR are meant to bring back inflation to its medium-term objective of 5 percent, these have had the indirect effect in lowering the pace of depreciation of the exchange rate, which is expected to cushion the inflation pressures. In addition, the committee noted the recent support from the tightening of fiscal policy to address the current inflationary pressures. The committee therefore decided to raise the CBR by 50 basis points to 9.0 percent. The band on the CBR remains at +/- 2 percentage points. The margins on the CBR for the rediscount and bank rates will remain at 3 and 4 percentage points, respectively. Going forward, the MPC considers that the monetary policy stance will have to be tightened even further if inflationary pressures persist to ensure that inflation reverts to its medium-term target of 5 percent.